

Arizona's Tax Shelter Voluntary Compliance Initiative

Frequently-Asked Questions

1. **What is the Arizona Tax Shelter Voluntary Compliance Initiative (VCI)?** It is an opportunity for taxpayers that have participated in tax shelters to come forward and resolve their tax liabilities without the risk of civil penalties. Taxpayers will be allowed to disclose any of the tax shelters that have been identified as "listed transactions" by the Internal Revenue Service (IRS).
2. **How does a taxpayer participate in the VCI?** Taxpayers participating in this Voluntary Compliance Initiative must notify DOR of their election by sending **Form AZ-VCI, Election to Participate in the Arizona Tax Shelter Voluntary Compliance**, on or before **April 22, 2005**.
3. **What documents must a taxpayer include with the Form AZ-VCI?** Taxpayers must attach the Federal original return and relevant schedules, a Federal amended return and relevant schedules, the Arizona original return and the Arizona amended return. Taxpayers will be allowed to deduct cost to the extent allowed by IRS.
4. **What if the taxpayer has not filed an original or amended federal return?**
Taxpayers may attach a pro-forma federal return.
5. **How long do taxpayers have to participate in the VCI?** Taxpayers have from **February 14, 2005** until **April 22, 2005**, to file form AZ-VCI with DOR and to include all information and documentation relevant to the tax shelter as well as any additional information requested by the DOR Tax Shelter Unit. Taxpayers have until **May 13, 2005** to submit full payment of tax and interest.
6. **What years can be settled under the VCI?** Taxpayers may submit information concerning a tax shelter for any taxable year beginning on or before December 31, 2003.
7. **Which taxpayers are eligible to participate in the VCI?** Any Arizona taxpayer, any nonresident taxpayer with Arizona source income or any corporation doing business in Arizona, that knowingly or unknowingly participated in a tax shelter whether or not they have previously, or are currently, disclosing this tax shelter to the IRS or another jurisdiction. Taxpayers under federal or state audit are also eligible to participate.
8. **Why should a taxpayer participate in the VCI?** Participation in a tax shelter transaction exposes a taxpayer to additional tax liabilities, penalties and interest. Penalties can range up to 75% of any additional tax due. A taxpayer can minimize the exposure to these aggressive penalties by taking advantage of the Arizona VCI. If taxpayers are currently under federal audit for the "listed transaction," participating in the VCI will avoid penalties and stop the accrual of interest.
9. **May taxpayers who have filed as married filing jointly on their Arizona income tax return participate on an individual basis?** Yes. Taxpayers who have filed their Arizona income tax return married filing jointly may participate in the VCI on a joint or an individual basis.

10. **May a taxpayer who is unable to pay the additional tax due participate?** Yes. A taxpayer may be permitted to enter into an installment payment program to resolve the tax liability, but all arrangements must be made prior to **May 13, 2005**. However, interest will continue to accrue until tax is paid in full.
11. **May a taxpayer amend an Arizona tax return containing the tax shelter under the existing Arizona Voluntary Disclosure Program?** No. The Arizona Voluntary Disclosure program is for nonfilers. Tax shelter disclosures will only be accepted through the procedures outlined under the VCI.
12. **Can a taxpayer participate if they are currently negotiating a final settlement with the IRS on the same tax shelter?** Yes. The taxpayer must comply fully with the terms of the VCI and closing agreements are available. Please call the Tax Shelter Unit for details.
13. **How do I contact the Tax Shelter Unit?**
The Tax Shelter Unit can be contacted at (602) 716-6450 or email ATATUnit@azdor.gov.